

April 17, 2003

Honorable Don Nickles
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Congressional Budget Office has prepared an estimate of the effects on direct spending of S. 380, the Postal Civil Service Retirement System Funding Reform Act of 2003, as cleared by the Congress on April 8, 2003. (The act will not affect revenues.)

S. 380 will make changes to the way the U.S. Postal Service finances retirement benefits for many of its current and former employees. The Office of Personnel Management projects that without enactment of S. 380, the Postal Service would have eventually overfunded its pension obligations for its workers by as much as \$71 billion. S. 380 authorizes the Postal Service to reduce its overall payments to the Civil Service Retirement and Disability Fund (CSRDF) to avoid overfunding its pension obligations. CBO estimates that under the legislation the Postal Service's payments to the retirement fund will decline by \$3 billion to \$5 billion a year, starting in 2003.

The budgetary impacts will flow from two aspects of the changes made by S. 380: the loss of receipts to the retirement fund (which is on-budget) and the response of the Postal Service (whose net cash flow is classified as off-budget) to a sizable reduction in one of its major expenses. In addition, assumed reductions in the Postal Service's debt to the Federal Financing Bank will result in a reduction of on-budget interest receipts. CBO estimates that total budgetary effect of the act (that is, combining on-budget and off-budget effects) will be a cost of nearly \$7.2 billion over the 2003-2013 period, as a result of lower postage rates and additional spending by the Postal Service for operations, capital investments, or both.

The table below shows the on-budget and off-budget effects of the legislation on direct spending. For a more detailed explanation of the basis for this estimate, see CBO's cost estimate of H.R. 735, dated March 14, 2003. The enacted version of S. 380 is almost identical to H.R. 735, as approved by the House Committee on Government Reform on

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March 6, 2003. The estimated budgetary effects for the enacted version of S. 380 are the same as those for H.R. 735.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING											
On-Budget Effects—CSRDF											
Estimated Budget Authority	3.5	2.7	3.0	3.0	3.2	3.6	3.8	4.2	4.6	4.8	5.2
Estimated Outlays	3.5	2.7	3.0	3.0	3.2	3.6	3.8	4.2	4.6	4.8	5.2
Off-Budget Effects—Postal Service											
Estimated Budget Authority	-2.5	-0.6	0.8	-3.0	-3.2	-3.5	-3.8	-4.1	-4.5	-4.8	-5.2
Estimated Outlays	-2.5	-0.6	0.8	-3.0	-3.2	-3.5	-3.8	-4.1	-4.5	-4.8	-5.2
Total Budget Effects											
Estimated Budget Authority	1.0	2.1	3.8	0.1	0.1	0.1	0.1	0.1	0.1	*	*
Estimated Outlays	1.0	2.1	3.8	0.1	0.1	0.1	0.1	0.1	0.1	*	*

NOTES: * = less than \$50 million.
CSRDF = Civil Service Retirement and Disability Fund.

Components may not add to totals because of rounding.

If you wish further details on this estimate, we will be happy to provide them. The CBO staff contacts are Geoffrey Gerhardt, who can be reached at 226-2820 and Mark Grabowicz, who can be reached at 226-2860.

Sincerely,

Douglas Holtz-Eakin
Director

cc: Honorable Kent Conrad
Ranking Member

Honorable Susan M. Collins

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Chairman
Committee on Governmental Affairs

Honorable Joseph I. Lieberman
Ranking Member

Identical letter sent to Honorable Jim Nussle.